Indirect Supply Chain Transformation Strategies

Speaker: Dion S. Ferrell
Dion Ferrell is currently a Vice President at Serta Simmons Bedding, the NA market leader in the bedding industry, where he heads the Indirect Strategic Sourcing and Procurement Tools & Technology organizations. Dion has previously held multiple leadership roles within F500 companies transforming Supply Chain organizations across various industries.

Having had roles throughout the business, Dion capitalizes on these experiences by anticipating the needs of the business and crafting solutions that enables businesses to win.

Personal Quote: “Comfort is the nemesis of growth.”

**Professional Experience**

In addition to Serta Simmons Bedding, Dion is also an entrepreneur as a Management Consultant and within the hospitality industry. In 2012, Dion and his business partners acquired a boutique hotel where they successfully led a business transformation, receiving national recognition for their efforts.

Representative examples of Dion’s experience include:

**Organizational Leadership**

- Led an Indirect Sourcing “greenfield” start-up for a market leader, recruiting staff, establishing processes and deploying a Sourcing technology suite.
- Created a Supply Chain Technology Group via sponsorship of IT Leadership, the focus was to capitalize on capturing “big data” and deconstruct into actionable business intelligence.

**Strategic Sourcing and Procurement**

- Conducted efforts that reduced company spending by 50% through zero-based budgeting, strategic sourcing, value engineering, demand management, and consortia in a growing company.
- Delivered 15%-30% year-over-year cost savings in areas such as Marketing – agencies, market research and printing; Professional Services – management consulting, contingent labor and legal; IT / Telecomm.; Human Resources – temporary labor, training, and HRIS, resulting in a 12:1ROI.
- Consistently outperformed COGS targets through sourcing and total cost management initiatives, resulting in 3% COGS performance vs. 10% target.

**Education and Certification**

- Bachelor of Science, Plastics Engineering, Ferris State University, Big Rapids, MI
Agenda

• Exploring Change
• Making the Case
• Internal Alignment
• Talent Management
• Value Creation & Delivery
• Enabling Technology
Exploring Change

Change

Change Management

Motivation

Transformation
Exploring Change

What is Change?

- Change: the act or instance of making or becoming different

**Change** = *moving to a future state*

Change Management = supporting individuals impacted by change through their own transitions
Motivation vs. Change

- Motivation: the reason for people’s actions, desires, and needs.

**Motivation** = *is based upon an emotional response*
What is Transformation?

• Transformation: the induced or spontaneous change of one element into another; metamorphosis.
Exploring Change

Change vs. Transformation

**Change** is about **Doing**....

**Transformation** is about **Being**....
Making the Case

**Procurement's Clout: Pre-Recession vs. Post Recession**
- 85% Much Higher
- 4% Much Lower
- 11% The Same

**Business Impact if Procurement Does Not Deliver Results (Post Recession)**
- Inconvenienced: 68%
- Financially Stressed: 27%
- Very Stressed: 5%

n = 84
n = 93
Making the Case

Strategic Approach to Success

1. Create a global external spend baseline
2. Identify projects and get “quick wins”
3. Establish a budget objective of net improvement vs. baseline
4. Gain alignment with Executive Leadership (Finance)
5. Prioritize areas to partner with business to drive savings
6. Introduce the cost savings program to organization
Making the Case

Key factors to consider when approaching transformation:

- Company’s Financial Status
- Organizational Reporting Structure
- Company’s Motivation
- Organizational Readiness
- Evaluating the Impact
Making the Case

## Making the Case

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Key Attributes</th>
<th>Ratings</th>
<th>Actions to Consider</th>
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<tbody>
<tr>
<td></td>
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<td>1=Limited, 5=Best-in-class</td>
<td>Current</td>
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<tr>
<td><strong>Organization / Skills</strong></td>
<td>• Balance between centralized and decentralized</td>
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<td>• Skill sets optimization - business and technical</td>
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<td><strong>Strategy</strong></td>
<td>• Category specific strategies</td>
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<td></td>
<td>• Balancing business need vs. cost reduction</td>
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<td></td>
<td>• Use of all possible sourcing levers</td>
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<td><strong>Performance Management</strong></td>
<td>• Metrics tracking and reporting – visible and actionable</td>
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<td>• Align metrics to business outcomes</td>
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<td><strong>Processes</strong></td>
<td>• Robust strategic sourcing process including RFIs, RFPs, expanded bid-lists</td>
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<td>• Use of advanced analytical techniques</td>
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<tr>
<td><strong>Technology</strong></td>
<td>• Using technology as a means to an end e.g. eRFx, spend databases and</td>
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<td>analytics, Supplier Portals, etc.</td>
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Communicating with Financial Leadership

Direct Goods:
• COGS
• Self contained and controlled
• Contained and easily understood
• Well accepted commodity pricing
• Impacts Gross Profit/Gross Margin (above the line)

Indirect Goods & Services:
• COGS, SG&A, and Add Backs
• Influence based vs. controlled
• Less familiar/not well understood
• Limited universally accepted pricing benchmarks
• Impacts maybe seen in various areas ~ Gross Profit, Operating Profit, and below operating profit
Internal Alignment

Finance and Sourcing Alignment

2016 OBJECTIVES
- REVENUE: 
- BUDGET: 
- ACTUALS: 
- EBITDA:

2016 ACTUALS
- REVENUE: 
- BUDGET: 
- ACTUALS: 
- EBITDA:

2017 OBJECTIVES
- REVENUE: 
- BUDGET: 
- ACTUALS: 
- EBITDA:

2017 ACTUALS
- REVENUE: 
- BUDGET: 
- ACTUALS: 
- EBITDA:

2017 OPPORTUNITIES
- MAXIMIZE INVESTMENTS
- ZERO BASED BUDGETING
- EMBED PROJECTS WITHIN BUDGETS
- ALIGN INCENTIVES TO OUTCOMES

PROBLEM:
- BUSINESS NEEDS TO MEET OR EXCEED FINANCIAL TARGETS
- OVERSPENDING, LACK OF CONTROL

OPPORTUNITY:
- AID THE BUSINESS IN MANAGING SPENDING MORE EFFECTIVELY
- IMPROVE PROFITABILITY

NEXT STEPS:
- BUSINESS, FINANCE AND SOURCING ALIGNMENT ON FINANCIAL GOALS
- IMPROVED VISIBILITY AROUND FINANCIAL PERFORMANCE.

2016 ACTIONS: (INDIRECT SOURCING)
BUDGET MANAGEMENT: (PROACTIVE)
- INCLUDE SOURCING PIPELINE WITHIN 2017 BUDGET PLANNING

MONTHLY REPORTING / VALIDATION: (PROACTIVE + REACTIVE)
- PLAN, PRESENT AND REPORT AGAINST PROJECT EXECUTION TO LEADERSHIP

TECHNOLOGY & POLICY DEPLOYMENT: (ON-GOING)
- ALIGN BUDGET WITHIN P2P SYSTEM TO ENSURE COMPLIANCE
Internal Alignment

Business and Sourcing Alignment

2016 Implementation
- Supplier / Spend Evaluation
- Supplier Rationalization

2017 and Beyond
- Strategic Sourcing
- Supplier Enabled Innovation
- Value Creation

Supplier Relationship Maturation
- BP Tolerance
- BP Acceptance
- BP Partnership

Supplier Rationalization
Strategic Sourcing
Supplier Enabled Innovation
Value Creation
Mature Sourcing Partnership
Talent Management

Engagement → Empowerment → Connectedness

= Community
   (Sense of Belonging)
• Redefining what is measured
  • Cost Savings vs. Value Creation

• Value measured against spend baseline
  • Baseline spend: steady-state reoccurring spend that generally exists each year
  • New Investments: quantify the new investments needed to fuel growth or grow operational capacity

• Change the measurement period
  • 12 month savings capture vs. over life of cost savings program

• Align cost reduction program to incentives
Value Creation & Delivery

• Identify levers/initiatives for EBITDA improvement
  • Demand Escalation
  • Spend Pooling
  • Rapid Negotiations / Strategic Sourcing
  • Alternative Solutions
  • VA/VE

• Prioritize areas to partner with business to drive savings
• Introduce the cost savings program to organization
Goals:
1. Establish definitions of Cost Savings / Value Creation
2. Develop a process to capture YOY Cost Reduction

**Cost Savings** = Cost Reduction (YOP) + Cost Avoidance (or Risk Mitigation)

**Value Creation** = Cost Savings + Working Capital Improv. + Revenue Enhancement + Alternative Solutions
Moving Beyond Data to Actionable Intelligence

- **Time**
  - Data aggregation, cleansing & classification
  - Achieve visibility through custom reporting & dashboards
  - Perform analysis through opportunity assessment
  - Influence the business through informed action

- **Impact**
  - Data
  - Information
  - Knowledge
  - Intelligence

- **Wisdom**
  - It’s not about what you did – it’s about what you’ll do next

- **Improved ROI**

Enabling Technology
Enabling Technology

Deconstruction of Data

1. Understanding of Current State
2. Consider the End in Mind (Vision)
3. Perform a Gap Analysis
4. Establish Cross-Functional Steering Team
5. Identify and Develop Understanding of Data Sources
6. Develop Data Modeling and Integration Points
7. Implement Solutions
8. Continuous Monitoring
Moving beyond static datasets to integrated decisions that drive business outcomes.
Thank You

QUESTIONS???
Connect With Me

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